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FM AMEMBASSY BISHKEK

TO RUEHC/SECSTATE WASHDC 1161

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCNCIS/CIS COLLECTIVE

RUEHBJ/AMEMBASSY BEIJING 2575

RHEFDIA/DIA WASHDC

RUEKJCS/OSD WASHDC

RUEAIIA/CIA WASHDC

RHEHNSC/NSC WASHDC

RUEKJCS/SECDEF WASHDC

RUEKJCS/Joint STAFF WASHDC

RUEHGV/USMISSION GENEVA 0961

RUEHVEN/USMISSION USOSCE 2970

RUCNDT/USMISSION USUN NEW YORK 2355

RUEHNO/USMISSION USNATO BRUSSELS BE

RUEHBS/USEU BRUSSELS

RUEHLMC/MILLENNIUM CHALLENGE CORP

RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL

C O N F I D E N T I A L SECTION 01 OF 03 BISHKEK 000699

SIPDIS

DEPT FOR SCA/CEN (GEHRENBECK/DEUTSCH)

E.O. 12958: DECL: 07/03/2018

TAGS: ENRG ECON PREL SOCI KG

SUBJECT: KYRGYZ MINISTER SEES OUTSIDERS AIDING ELECTRICITY SECTOR

REF: A. BISHKEK 593

1B. BISHKEK 501

1C. BISHKEK 195

1D. 07 BISHKEK 1395

1E. 07 BISHKEK 966

1F. 06 BISHKEK 1792

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Classified By: Amb. Marie L. Yovanovitch, Reason 1.4 (b) and (d).

11. (C) Summary: With reservoirs at the main hydroelectric network far below last year's levels, Kyrgyz authorities have instituted forced blackouts to conserve water and reduce electricity consumption. Energy Minister Balkibekov has confirmed plans to privatize the Bishkek thermal plant, the Severelectro electricity distribution company, and a third asset to one investor by September or October. The Minister hoped that the investor would inject capital into the electricity infrastructure in time to increase power supply for the winter months. The short fuse for investor action coincides with continued disagreement among the countries in the region over water management, which Balkibekov said could be adjudicated by the United Nations, but he feared the Uzbeks would not agree. Balkibekov also opined that more competitive pricing for electricity destined for South Asia would help rejuvenate Kyrgyz enthusiasm for the CASAREM initiative. However, in the short term, electricity cuts, delayed maintenance at the Bishkek thermal plant, and uncertainty over Uzbek natural gas supplies highlight potential difficulties this winter. End summary.

Short-Term Problems

12. (C) Minister of Energy, Industry and Fuel Resources Saparbek Balkibekov confirmed to the Ambassador and USAID Director June 25 that continued low water supplies would force blackouts throughout the Kyrgyz Republic within days. (Note: Kyrgyz media later reported the restart of "electricity consumption restrictions" June 29. The Kyrgyz Republic relies heavily on hydroelectric power. End note)

Balkibekov acknowledged the damage these power cuts would have on industry, hotels, food processing operations and other sectors of the economy, but concluded that conserving water supplies for winter power generation was of greater importance to the country. The magnitude of the planned summer blackouts is not certain.

¶3. (SBU) According to Ministry data, water supply in the main Toktogul hydroelectric reservoir as of June 26 was 8.75 billion cubic meters, far below the 12.96 billion cubic meters reported at this time last year. Last year marked the beginning of a low water cycle, which also saw low reservoir levels. The reservoir has a capacity of 19.5 billion cubic meters, but water levels below 5.5 billion cubic meters render the hydroelectric network inoperable.

¶4. (C) Balkibekov identified the Bishkek thermal power station (TETS) as a potential source for augmenting electricity generated by the hydroelectric network this winter. Although the Bishkek TETS has an installed capacity of 660 megawatts which can generate five billion kilowatt hours of electricity, Balkibekov said that the Bishkek TETS currently generates only one billion kilowatt hours. The high cost of Bishkek TETS power generation dissuaded authorities from increasing its production, he added, and partially explains why the Kyrgyz government hopes to privatize the Bishkek TETS quickly. (Comment: As tariffs do not cover Bishkek TETS power generation costs, costly purchases of additional coal and natural gas needed to boost electricity production will likely be delayed until the situation becomes extremely critical. End comment.)

Connecting with Investors

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¶5. (C) While admitting that time is running out, Balkibekov hoped that privatization of the Bishkek TETS, by no later than September or October, would permit an investor to prepare for the upcoming heating season. He said that if the process could not be completed by October, no investor would take the "risk," since the Kyrgyz government will demand a doubling of Bishkek TETS power output as a condition of the sale. Balkibekov confirmed government plans to sell the Bishkek TETS along with two other assets to one investor. As the Bishkek TETS is "unprofitable," Balkibekov noted that adding the "profitable" SeverElectro (the northern electricity distribution company serving the Bishkek area) would make the transaction more attractive. He suggested that the third asset, Teploset, which distributes hot water and heat to the city, cannot be technically separated from the Bishkek TETS. (Note: The Bishkek TETS was originally designed to generate hot water, heating and electricity. End note.)

¶6. (C) Balkibekov claimed the government wanted an investor who would inject cash into the network, and not cash into the government budget. He said the State Property Committee would conduct the asset privatization process, with minimal technical and logistical support from his Ministry. (Comment: As reported reftel B, a potential U.S. investor was told not to bother with the tender due to an apparent pre-determined outcome. Kazakh businessman Alexander Mashkevich, who has coal industry experience in Kazakhstan, has been identified as the likely "winner" of the tender. Mashkevich has been previously associated with Bakiyev family interests. End comment.)

Connecting with the Neighbors

¶7. (C) Shifting to the water shortages, Balkibekov blamed Uzbekistan for the lack of a regional water agreement. Uzbekistan continues to object to a multilateral agreement, and the Kyrgyz Republic does not favor a bilateral

arrangement. Due to limited water supplies, the Kyrgyz Republic is not currently generating excess electricity for export to Kazakhstan. And without a multilateral agreement, water released by the Kyrgyz Republic intended for Kazakhstan might be fully diverted by Uzbekistan. In anticipation of water shortages, Uzbekistan, Balkibekov noted, had planted less cotton this year. Uzbekistan, he added, is creating water caches to collect water Kyrgyz hydroelectric stations would be releasing this winter.

¶ 8. (C) He reiterated the sensitivity of the water issue, and believed that international organizations like the United Nations would need to get involved to secure an agreement. Balkibekov reasoned that Russia would not become involved due to concerns about its own bilateral relations in the region. After collecting more information about regional water issues elsewhere, he said that the Kyrgyz Republic might approach the United Nations for assistance. Balkibekov admitted, however, that it was unlikely Uzbekistan would agree to international mediation.

¶ 9. (C) With respect to the Central Asia South Asia Regional Energy Market (CASAREM) initiative, Balkibekov noted that increased attempts by Kazakhstan to secure its own domestic electricity supplies caused the Kyrgyz Republic to consider alternate markets for any future electricity exports. However, he claimed that unattractive World Bank pricing models showing Kyrgyz electricity getting 2.2 cents per kilowatt hour had curbed Kyrgyz enthusiasm for the CASAREM initiative. Balkibekov noted that Kazakhstan had been offering 4.5 cents per kilowatt hour of Kyrgyz electricity (which current water shortfalls prevent the Kyrgyz from

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supplying.)

¶ 10. (C) Although Balkibekov believed the low World Bank pricing had been designed to allow for a greater return on investment for the risky Afghan portion of the transmission line, he thought that his request for more competitive pricing models in a June 24 conference call with other CASAREM players would trigger positive changes. (Comment: Balkibekov may have misunderstood previous World Bank pricing explanations, but now appears more satisfied with the pricing scheme. End comment.) He told the Ambassador that the issue should be discussed and finalized at an upcoming CASAREM meeting in Islamabad, where he will be leading the Kyrgyz delegation.

Comment

¶ 11. (C) Kyrgyz government attempts to curb electricity demand through forced blackouts this summer are strong indicators of the worry with which the government views the possibility of shortfalls during a cold winter. Although it is believed that the Bishkek TETS and Severelectro are destined for a favored investor (with some energy sector background) Mashkevich), the government could be risking a lot if an inexperienced operator is awarded the facilities so soon before the start of the heating season. Given the typical slowdown in Kyrgyz government bureaucracy during July and August, an experienced operator will not have sufficient time to be awarded the assets, survey them and enact repairs for the winter. This difficulty could be compounded by disagreement with Uzbekistan over natural gas supplies this winter. While the privatization process will likely not be transparent, it is a positive step for opening up the energy sector to private investment.

¶ 12. (C) Balkibekov's newfound enthusiasm for CASAREM is refreshing, but could lapse if the Kyrgyz do not realize higher price guarantees for their potential electricity exports to South Asia. However, additional questions, such as the sales vehicle for Kyrgyz electricity exports and capacity upgrades to the Kyrgyz grid, are also pending.

Given rising demand and stagnating production, heavy investment will be needed in the Kyrgyz electricity sector in the coming years to transition the Kyrgyz into a reliable supplier for the CASAREM initiative.

¶13. (SBU) Balkibekov is scheduled to visit the United States under a USAID-organized study tour later this month.
YOVANOVITCH